IV. THE COMMISSION SHOULD NOT REIMPOSE STRUCTURAL SEPARATION

The Commission seeks comment on whether some form of structural separation should be reimposed for the provision of enhanced services by the BOCs.[39] As shown below, the Commission's nonstructural safeguards have a proven track record of benefiting consumers and protecting competition. In contrast, the reimposition of structural separation would generate substantial costs and consumer harms with no offsetting benefits. The Commission should therefore not reimpose structural separation on the BOCs.[40]

A. The Vibrant Enhanced Services Market Is Evidence That The Commission's Computer III Framework Has Been Effective

As demonstrated supra, the enhanced services market is vibrant, includes a multitude of well-established players, and has expanded greatly by all accounts since 1988 when the BOCs first began to offer enhanced services. The BOCs have not attained anything remotely close to a

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[39] NPRM at ¶¶ 38-39.

[40] Under certain circumstances, a BOC may choose to provide enhanced services using an affiliate. For example, NYNEX provides some enhanced services from its publishing unit, and plans to provide video programming services using an affiliate. Nonetheless, NYNEX believes that these affiliates should be permitted to be integrated with the telephone companies subject to nonstructural separation rules so that these affiliates have the flexibility to perform certain functions jointly with the telephone companies.

dominant position in any of these enhanced service market segments.[41] For example, there are literally thousands of firms providing voice messaging service, the service which accounts for the bulk of the BOCs' enhanced service revenues. No BOC has a market share greater than 6% and the BOCs' market share as a group is less than one-sixth.[42]

This evidence supports the Commission's previous determination that nonstructural safeguards ensure a fair competitive environment and provide substantial consumer benefits.[43] Indeed, the Commission has repeatedly found that BOC integrated provision of basic and enhanced services significantly advances the public interest.[44] Joint marketing offers consumers the convenience of "one-stop shopping," increases customer awareness of valuable features, and enables BOCs to market services in an efficient manner.[45] In California III, the Ninth Circuit affirmed that BOCs are uniquely situated to reach small customers and develop a mass market for enhanced services.[46]

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41 Hausman Study at p. 9.

42 Hausman Study at 10.

43 See NPRM at ¶¶ 6, 37.

44 See, e.g., BOC Safeguards Order at ¶¶ 98-100, 105, 108; Interim Waiver at ¶ 26; VDT Recon. Order at ¶¶ 234, 239-42; VDT Order at n. 243.

45 VDT Recon. Order at ¶¶ 234, 241.

46 See 39 F.3d at 931.

The BOCs' substantial telecommunications assets and resources provide a strong foundation for BOCs to develop, on an integrated basis, a rich array of enhanced services. Integration fosters operational efficiencies, economies of scope and cost savings by avoidance of the separation and/or duplication of assets and personnel occasioned by structural separation requirements. Integration allows the BOCs to be more efficient by: using existing sales channels to market basic and enhanced services rather than creating new, separate sales forces; utilizing the same personnel to repair and install equipment used to furnish basic and enhanced services rather than using different personnel; and applying existing expertise in research and development for basic and enhanced services rather than doing so separately.[47] The Ninth Circuit found the Commission had made a "plausible case" that lifting structural separation would benefit consumers by permitting the BOCs to operate more efficiently in the enhanced services market.[48]

Moreover, the one-stop shopping made possible by joint marketing enables BOCs to better craft integrated service packages to satisfy customer needs. The resulting increase in consumer knowledge about basic and

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[47] See BOC Safeguards Order at ¶¶ 99-100.

[48] 39 F.3d at 924-25.

enhanced services helps expand the entire market for such services, thus benefiting the BOCs' competitors as well.[49]

Implementation of the Commission's nonstructural safeguards regime has fueled rapid expansion of BOC enhanced services and continued growth in the availability of those services. In 1990, the BOCs reported only 160,000 customers for their enhanced services. By 1994, this number had grown to about 5 million, covering a wide variety of services including voice messaging, video text gateways, electronic mail service, on-line database transactions, and the testing of enhanced services associated with video dialtone.[50]

As noted in the attached Affidavit of William B. Neil, Jr., the Commission's nonstructural safeguards approach enabled NYNEX to bring its Voice Messaging Service to market within six months after the Commission approved NYNEX's CEI plan in 1989. Because NYNEX has been able to market the service through its telephone companies' existing sales channels, NYNEX now has over 450,000 customers and added more than 195,000 customers in 1994 alone, a 77% increase over the previous

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49 See VDT Recon. Order at ¶ 240.

50 See NPRM at ¶ 37. See also the list of BOC enhanced services as referenced in the Interim Waiver at n. 26.

year.[51] The success of NYNEX's VMS is directly attributable to the fact that the NYNEX Telephone Companies were able to directly perform all aspects of the development, marketing and provisioning of VMS.

Most importantly, the integrated provision of enhanced services by the BOCs has resulted in lower prices for consumers. This is demonstrated by the BOCs' experience in offering VMS. Since BOC entry into the VMS market, prices have decreased from about $30 per month in 1990 to about $5-15 per month currently.[52]

It is thus clear that the BOCs' ability to offer integrated enhanced services has been good for consumers and the nation's economy. New services have been introduced, competition has flourished, and prices have decreased. The demonstrated benefit to consumers of having the BOCs provide enhanced services on an integrated basis far exceeds any hypothetical risk of access discrimination and cross-subsidy.[53]

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[51] Five years ago, the BOCs had no VMS customers. Today, they have over 6 million VMS customers nationwide and growth for the rest of the decade is forecast at around 12% per year. <u>Hausman Study</u> at 5.

[52] <u>Hausman Study</u> at 5.

[53] Given the size of BOC enhanced services operations which involve a multitude of services, thousands of sales personnel and millions of customer contacts, the lack of any substantiated misconduct on the BOC's part is significant and reflects the efficacy of the Commission's rules and the efforts of the BOCs to comply with those rules and to compete fairly.

B. Reimposition Of Structural Separation For Enhanced Services Would Be Very Harmful, Costly And Unreasonable

The reimposition of structural safeguards would stifle competition in the enhanced services market that has flourished under the Commission's regime of nonstructural safeguards. This is because structural separation discourages innovation, prevents efficiency in packaging services offered to customers, and results in wasteful duplication of organizations and facilities. Indeed, the Ninth Circuit upheld the Commission's determination that the inability of BOCs to develop the voice mail market had been a substantial cost of structural separation.[54]

To similar effect, the Commission has found in various other proceedings that the imposition of structural safeguards adversely impacts the public interest. For example, the Commission has eliminated structural separation requirements applicable to BOC provision of CPE[55] and to the sale of cellular CPE;[56] the Commission has refused to mandate structural separation with respect to LEC provision of personal communications

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54 California III, 33 F.3d at 925.

55 Furnishing Of CPE By The BOCs, 2 FCC Rcd. 143 (1987), reconsideration, 3 FCC Rcd. 22 (1988).

56 Policy And Rules Concerning The Furnishing Of Customer Premises Equipment, Enhanced Services And Cellular Communications Services By The BOCs, FCC 85-54, 57 Rcd. Reg 2d (P&F) 989 (February 12, 1985).

services ("PCS");[57] and the Commission has concluded that not subjecting AT&T/McCaw to Part 22 structural separation requirements would enhance competition and result in the introduction of new services to the public.[58] It would be arbitrary for the Commission to depart from these precedents and take a giant step backwards by reimposing structural separation in the present proceeding.

Furthermore, as shown in the Neil Affidavit and Hausman Study, structural separation would thwart the development of mass markets for many enhanced services. If NYNEX had been required to offer its principal enhanced service -- Voice Messaging Service -- on a structurally separate basis, there would have been significant costs and delays in making this service available to consumers. Also, as Mr. Neil explains, reimposition of structural separation for BOC enhanced services would be very costly. If structural separation were reimposed for NYNEX's Voice Messaging Service, NYNEX would incur one-time transition costs of $34 million. In addition, the ongoing costs of provisioning VMS would increase by at least

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57 Amendment Of The Commission's Rules To Establish New Personal Communications Services, Second Report and Order, 8 FCC Rcd. 7700 (1993), reconsideration, FCC 94-144 (June 9, 1994).

58 Applications Of Craig O. McCaw, et. al., FCC 94-238 (September 19, 1994).

$8.3 million on an annual basis.[59] Structural separation could make VMS and other enhanced services so costly as to make it uneconomic for NYNEX to continue to offer them on any wide-scale basis, if at all.

C. The Emergence Of Local Exchange Competition, Fueled By The Convergence of Technology And Industries, Has All But Eliminated The Potential For BOC Discrimination And Cross-Subsidy

Since the Commission began its Computer III proceeding in 1986, the telecommunications environment has changed greatly. The potential for BOC misuse of its market power to offer enhanced services in a discriminatory fashion has been greatly reduced for several reasons.

First, as discussed above, the enhanced services market is much more competitive. Competitors can be relied on to monitor the quality of access to the network, thereby reducing the ability of the BOCs to discriminate.

Second, as also discussed above, NYNEX has opened its networks to competition. Competitive local exchange carriers can now provide ESPs with services that only NYNEX could provide in 1986.

Finally, the convergence of technology and industries has led to a dramatic increase in local exchange competition, especially in the NYNEX

[59] NYNEX's revenues from VMS are approximately $25 million. Thus, structural separation would increase the proportion of unit costs to revenues ($8.3 million ÷ $25 million) by about 33%, which is comparable to the cost increases noted in the Hausman Study for Bell Atlantic and U S WEST's VMS operations. Hausman Study at pp. 20-25.

region.[60] The technology lines which separated telecommunications, video, and information services and service providers have long since disappeared.[61] Similarly, the lines between industries (telephone, cable and information) are also disappearing.[62] This phenomenon is being ignited by both technology advances and regulatory initiatives and is likely to continue if not impeded by burdensome regulation.[63]

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60 In its Universal Service Preservation Plan, filed with the Commission on December 15, 1993, NYNEX showed that it has already lost significant market share to competition. See Exhibit 10, Section G. A January 16, 1995 Newsday article reported that Cablevision will soon be conducting trials for residential service and hopes to begin offering local telephone service to its 1.4 million New York-area cable customers in early 1996.

61 In its NPRM for the Third Computer Inquiry, the Commission cited such changes in the industry as its original reason for initiating its inquiry. The Commission cited IBM Corporation's increasing presence in various sectors of the telecommunications industry through its ownership interests in MCI (an interexchange carrier) and Rolm Corporation (a CPE and telecommunications equipment manufacturer). See Third Computer Inquiry, Notice of Proposed Rulemaking, released August 16, 1985, at ¶ 22.

62 Cox Cable is an excellent example of how these industries and services are beginning to converge. Cox owns 30% of Teleport and has holdings in newspaper and radio industries and has announced an alliance with Sprint, TCI and Comcast to provide one stop shopping for local telephone, long distance, cable and wireless services. Prodigy, which is jointly owned by IBM and Sears, is trialing cable delivery of its services in California in partnership with Cox Cable. Other companies are also expanding their services and are positioning themselves for the converging market. For example, all of the major interexchange carriers offer some form of electronic messaging and Electronic Data Interexchange (EDI) services.

63 See Department of Commerce U.S. Industrial Outlook 1994, p. 29-7 ("The multimedia industry is being created from the convergence of communications technology, computers, consumer electronics and entertainment").

In order for the BOCs to actively participate in the enhanced services market, the BOCs must be able to fairly compete with its competitors who have the unimpeded ability to offer a mixture of network, video, CPE, cellular and enhanced services. The strategic partnerships that are forming among the BOCs' cable, telecommunications and information services competitors make it imperative that the BOCs be able to offer basic and enhanced services on an integrated basis. If BOCs are not able to do so, the BOCs will not be able to introduce many new beneficial network services and mass market enhanced services such as interactive multimedia services.

The existence of a robust, competitive enhanced services market, the continuation of network unbundling, and the emergence of local exchange competition all lead to the conclusion that the risks of BOC discrimination or cross-subsidization are far less than they were in the past. Conversely, there is substantial risk that the withdrawal of structural relief from the BOCs may hinder or destroy the measurable positive benefits that have resulted from BOC provision of enhanced services on an integrated basis. The Commission should therefore not reimpose structural separation requirements on the BOCs.

D. There Is No Basis For Applying Structural Separation Or Additional Nonstructural Safeguards To Specific Enhanced Services

The Commission seeks comment on whether structural separation or additional nonstructural safeguards are needed for specific enhanced services.[64] There is no basis for any such requirement.[65] There is simply no evidence that, for a particular enhanced service, increased protection such as structural separation is warranted because the alleged potential for cross-subsidy and discrimination in a particular enhanced service is greater relative to other enhanced services. Such a structure would only add costs and regulatory burdens, as well as stifle innovation and confuse customers. The creation of arbitrary boundaries by service-specific rules would harm consumers by limiting the availability of potential services including the blending of existing enhanced services into new offerings.

The Commission has repeatedly concluded that it would be inappropriate to establish different regulatory safeguards and classifications for different types of enhanced services. Thus, the Commission has stated

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[64] NPRM at ¶ 39.

[65] Of course, as is the case today under the Commission's regime of nonstructural safeguards, BOCs should continue to have the option, e.g., for business reasons, to place certain enhanced services in either the telephone company and/or a nonregulated affiliate. The Commission's safeguards provide adequate protection against access discrimination and cross-subsidy in either case.

that nonstructural safeguards were designed by the Commission "to accommodate new enhanced services offerings in an increasingly competitive environment" and have never been intended to be product-specific nor limited to existing products.[66] Accordingly, the determination as to how best to internally structure enhanced service operations, such as placing those services in a separate affiliate or integrating them with telephone company operations, must be left to company management.

* * *

It is thus clear that structural separation imposes substantial costs on the BOCs and their customers. In contrast, structural integration provides substantial public benefits that far outweigh the minimal risk of anticompetitive behavior by the BOCs. The Commission should therefore reaffirm its prior conclusion that total removal of structural separation requirements is in the public interest.

V. <u>CONCLUSION</u>

The Commission should not retreat from the procompetitive policies adopted in <u>Computer III</u>. The lifting of structural separation requirements for BOC enhanced services has led to the introduction of new services and expanded customer choice. The nonstructural safeguards that the

[66] <u>VDT Recon. Order</u> at ¶ 180. <u>See</u> also <u>VDT Order</u> at ¶¶ 89-96; <u>Interim Waiver</u> at ¶ 31.

Commission has implemented within the current ONA framework provide more protection against access discrimination than that provided under the service-specific CEI regulatory regime approved by the Ninth Circuit in California III. In contrast, the reimposition of structural separation requirements would generate substantial costs and consumer harms with no offsetting benefits. The Commission should therefore reaffirm its prior conclusion that total removal of structural separation requirements is in the public interest.

Respectfully submitted,

New England Telephone and
Telegraph Company

New York Telephone Company

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Their Attorneys

Dated: April 7, 1995
95-20.doc

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Computer III Further Remand	)	CC Docket No. 95-20
Proceedings: Bell Operating	)	
Company Provision of	)	
Enhanced Services	)	

AFFIDAVIT OF WILLIAM B. NEIL, JR.

STATE OF NEW YORK:	)	
	)	SS. :
COUNTY OF WESTCHESTER:	)	

William B. Neil, Jr., being duly sworn according to law upon his oath, deposes and says:

1. I am currently Staff Director responsible for NYNEX's Voice Messaging Service (VMS). I have held this position since 1988. Prior to that time, I held various strategic and product management marketing positions, including positions with line of business management responsibilities for usage and special services. Before that, I held marketing, regulatory and sales positions at New York Telephone.

2. This Affidavit is submitted in support of NYNEX's Comments in the above-captioned matter. The purpose of this Affidavit is to show that: (1) integrated marketing of basic and enhanced services by local

exchange carriers ("LECs"), such as NYNEX, is critical to the development of mass markets for enhanced services; (2) structural integration was crucial in developing, implementing and offering NYNEX's highly successful Voice Messaging Service (VMS); and (3) reimposition of structural separation for NYNEX's VMS service would create substantial transitional costs and significantly increase the ongoing costs of providing the service.

I. INTEGRATED MARKETING OF BASIC AND ENHANCED SERVICES BY LECS IS CRITICAL TO THE DEVELOPMENT OF MASS MARKETS FOR ENHANCED SERVICES

3. In 1986, in the Computer III proceeding, the Commission determined that requiring LECs to offer enhanced services on a structurally separate basis was not in the public interest. The Commission found that structural separation hurts consumers by creating marketing inefficiencies and slowing or preventing the development of enhanced services. The Commission's determination remains valid today.

4. Integrated marketing of basic and enhanced services by the LECs is critical to the development of mass markets for enhanced services. The LECs own, manage and control the communications facilities and the associated management and operational resources essential for providing enhanced services. The geographic dispersion of facilities throughout the LEC regions make it possible for LECs to serve many communities that

would not be economic for others to serve. Because the LECs already serve large numbers of households in their respective regions, they have a ready, inexpensive opportunity to market enhanced services to the consumer market.

5. The LECs can best realize their potential in the enhanced services marketplace if they are permitted to provide enhanced services on an integrated basis with basic services. Provision of enhanced services on an integrated basis allows LECs to operate more efficiently in several respects. For example, they can use existing sales contacts to market enhanced services rather than establishing new, separate sales forces. Similarly, they can use the same personnel to repair and install equipment used to provide basic and enhanced services rather than using different personnel.

6. If the LECs are unable to take advantage of the operational efficiencies, economies of scope, and cost savings inherent in their current integrated operations, enhanced services that are potentially useful to customers will not be developed or provided. It is thus in the public interest that LECs be permitted to provide and market enhanced services on a fully integrated basis.

II. INTEGRATION OF BASIC WITH ENHANCED SERVICES HAS BEEN CRITICAL IN DEVELOPING, IMPLEMENTING AND OFFERING VOICE MESSAGING SERVICE

7. In its Comments in CC Docket No. 90-623, NYNEX described in detail the process of planning, developing and providing VMS on an integrated basis. NYNEX reaped substantial benefits from being able to provide the service on an integrated basis. Those benefits of integration contrast with structural separation which would have caused significant inefficiencies such as using separate (and duplicative) planning personnel, marketing organizations, operations personnel, space, and ordering and billing systems.

8. A key benefit of the integrated planning and development process for VMS was the fact that NYNEX was able to bring the service to market relatively quickly. NYNEX VMS first became available to the public in Waltham, Massachusetts in July 1989, six months after the Commission approved the NYNEX CEI Plan. NYNEX's customer base has expanded rapidly since that time. VMS is now available to approximately 2 million residence and business access lines in New England, and 6.6 million lines in New York.

9. NYNEX now has over 450,000 messaging customers utilizing 500,000 mailboxes located throughout our serving area in the Northeast

United States. The messaging products offered to these customers are extensive, including basic call answering products for both residence and small business customers, as well as enhancements that are offered to these market segments. These include multiple mailboxes, wake-up, reminder and paging services access options.

10. In addition, NYNEX offers a complete range of Voice Messaging Services to Centrex customers. These services include call answering, voice mail, information and call processing mailbox services and a range of additional service and billing options designed to serve the more complex messaging needs of medium and large business customers.

11. VMS is one of the fastest-growing NYNEX services. In 1994, we added more than 195,000 NYNEX Voice Messaging Service customers—a 77% increase over the previous year.

12. The current customer base for NYNEX VMS is over 80% residence. About half of the remaining customers are small businesses. Based on current results and projected demand, it is expected that our subscriber base over the next five years will continue to be over 80% residence with the remainder being primarily small business.

13. NYNEX continues to realize the benefits of structural integration as VMS is deployed and expanded. Subject matter experts from

many departments continue to interact with respect to technical innovations, customer expectations and demands, and quality assurance for VMS.

14. I believe that the success we have achieved in our implementation and deployment of VMS would not have happened without the NYNEX Telephone Companies' ability to directly perform all aspects of the development, marketing and provisioning of VMS. If NYNEX had been required to establish a separate subsidiary for VMS, the additional costs and limitations upon the methods, capabilities and facilities used would likely have limited any VMS service to large businesses only, or to customers in New York City and Boston. Indeed, NYNEX might have chosen not to offer this service at all.

15. If the Commission decides in this proceeding to prohibit integrated provision of basic and enhanced services, NYNEX will have to reexamine VMS to determine whether it remains economically viable to offer it to the mass market, or at all. Based on our VMS experience, I believe that if we must structurally separate enhanced services from our basic service operations, it would result in increased operating costs, limited access to the mass market, inconvenience to the customer and an Information Age available only to a few.

III. REIMPOSITION OF STRUCTURAL SEPARATION FOR VMS WOULD CREATE SUBSTANTIAL TRANSITIONAL COSTS AND SIGNIFICANTLY INCREASE THE ONGOING COSTS OF PROVIDING THE SERVICE

16. I have analyzed what it would cost NYNEX to move VMS to a separate subsidiary. I estimate that the total transitional costs would be $34 million, driven primarily by the need to establish new ESP serving centers, transition equipment from a distributed network architecture to a centralized network architecture, and make major equipment purchases. In addition to these transitional costs, the ongoing costs of provisioning VMS would increase by at least $8.3 million on an annual basis.

17. If NYNEX were required to offer VMS through a separate subsidiary, NYNEX voice messaging equipment would have to be moved out of the current central office locations, underlying services would have to be reordered, new connections would have to be made, and previous services would have to be disconnected in order to deliver service to the new locations. Billing would have to be removed from its current integrated position within the NYNEX telephone bill to a separate page or to a separate bill altogether. In addition, NYNEX would have to transfer and/or hire people knowledgeable in the administration and maintenance of voice messaging services. All of these changes are major undertakings and pose

the prospect of disrupting the valuable service that we currently render to our customers.

A. Equipment And Network Rearrangement Costs

18. Currently, voice messaging is located in NYNEX central office space where it can be efficiently maintained by our technicians who work on other telephone equipment nearby. This location also provides heat, light and, most importantly, uninterruptable power for the voice messaging equipment. These services are provided at very little incremental cost, since they are readily available in our buildings, and the messaging equipment occupies very little floor space (usually six to ten feet of a standard relay rack).

19. In New York State, our messaging equipment is located in approximately 150 buildings. Because of the inefficiency of duplicating so many small commercial rental spaces and because the cost of uninterruptable power in these small locations would be prohibitive, we would need to adopt a more centralized deployment architecture.

20. In New England, where different customer densities and network transport rates exist, different messaging equipment in a different network configuration is utilized. As a result, equipment exists in only about 20 telephone company buildings. While some consolidation of equipment

would be necessary, it would be much less than would be required in New York State. However, extensive network rearrangements would be required to "rehome" voice messaging services on new hub locations. In addition, since very large voice messaging servers have been employed in New England, there would be extensive relocation expenses associated with moving the equipment and conditioning the space that the equipment would occupy.

21. In both New York and New England, NYNEX would have to secure and prepare commercial rental space and supply at least several brand new voice messaging systems so that the customers' service could be transferred to the new subsidiary without disruption. NYNEX would also incur administrative expenses associated with transferring the customers' service from the telephone companies to a new separate subsidiary, as well as costs for rearranging the tariffed network services that are used for Voice Messaging Services. In total, these one-time costs are $34 million dollars.

B. Additional Ongoing Costs

22. In addition to these one-time costs, NYNEX would also incur additional ongoing expenses based on the new network architecture. Chief among these are new ongoing real estate rental costs, incremental commercial power requirements and, in New York, the higher costs

associated with the additional network transport caused by the required new centralized network architecture. These additional ongoing expenses on an annual basis would total $6.6 million.

23. In addition to a $6.6 million increase in operational costs, NYNEX would incur at least a $1.7 million increase in billing expenses. At the present time, Voice Messaging Services are billed as an integral portion of the NYNEX telephone bill. For the bulk of our customers (the 450,000 residence and small business customers), this amounts to a line or two on the existing page of the telephone bill. If Voice Messaging Service was no longer provided by the NYNEX Telephone Companies but rather by a separate NYNEX subsidiary, either a separate page would have to be added to the current bill, much in the same way that we bill for interLATA carriers today, or a totally separate bill would have to be rendered.

24. If the first option were employed, the separate voice messaging subsidiary would incur NYNEX's standard rates for provision of a separate bill page. This would cost $2.7 million per year. In addition to this charge, there would also be a requirement to provide transaction processing. Based on an estimate provided by International Telemedia Associates ("ITA"), an independent billing firm, this would add $.04 to $.07 per month per

customer or about $200,000 to $375,000 per year. Thus, the total annual billing expenses would be $2.9 to $3.1 million.

25. A second option would be to have the new voice messaging subsidiary render a stand-alone, completely separate "private bill." This would cost (again based on estimates received from ITA) $.90 per customer per month or approximately $4.9 million per year.

26. Under both options, the costs are considerably higher than the costs today for the 1-2 line entry on the bill. Fully allocated cost data for VMS in New York State indicate a monthly billing cost per customer of about $.21 (incremental costs are undoubtedly much less). If this $.21 cost is applied to all 450,000 residence and small business customers, the annual billing cost is $1.2 million. This is $1.7 million less than the lowest billing alternative that would be available if NYNEX moved VMS to a separate subsidiary.

27. Thus, I have conservatively estimated the increase in the ongoing costs of VMS to be $8.3 million ($6.6 million in operational costs plus a minimum of $1.7 million in billing costs). I have not included any additional costs for establishing a new, separate sales force. These costs would undoubtedly be substantial.

28. In conclusion, the increased costs from placing VMS in a separate subsidiary would increase the price of NYNEX's VMS service to the point where it would no longer be economic to offer the service on a wide-scale basis, if at all. Thus, structural separation could potentially lead to reduced competition in the VMS market and disruption of service to the public.

William B. Neil, Jr.

Sworn to before me this
6th day of April, 1995

Notary Public

CARLOS J. SANDOVAL
Notary Public, State of New York
No. 4967449
Qualified in New York County
Commission Expires June 4, 1996